Minnesota Management & Budget

Internal Controls BULLETIN

Volume 9, Issue 7 – August 30, 2017

Fraud 101 – protect funds received through the mail

Highlights

- "Skimming" is the theft of funds before receipt of the funds are recorded in the accounting records.
- Skimming is one of the most common occupational (white collar) fraud schemes.
- Mail receipt skimming is a risk for any agency that receives funds through the mail.
- Having two people open the mail and record all funds received greatly reduces the risk of mail skimming.

No one thinks criminal activity will happen in their organization, however, 31.3% of occupational fraud victims are state governments. This situation became a reality for a Minnesota state agency victimized from the inside in 2010. One of the 100 people implicated in the fraud was an employee of the agency who used a *skimming* scheme to steal approximately $345,000 of cashier's checks and money orders sent to the agency through the mail. Unmitigated internal control weaknesses made the agency vulnerable to this undetected fraud.

The Association of Certified Fraud Examiners' *2016 Report to the Nations*, indicates that 12% of all reported occupational fraud cases involved "skimming." Skimming is theft of funds before receipt of the funds are entered into the organization's accounting records.

Because skimming involves theft of money before it is recorded on the books, there is no direct audit trail. This means victim organizations may not be aware money was received, let alone stolen. The easy concealment of skimming makes it appealing to fraudsters.

Skimming is a risk to any state agency that receives money through the mail. Citizens and corporations mail funds to the state to pay for licenses, permits, fines, and restitution. Those doing business with the state must be confident those funds will be protected.

Fraud triangle theory suggests that no organization can control the pressures that might cause employees to commit fraud or how employees might rationalize their fraudulent actions. An organization's best defense against fraud is a strong system of internal controls that reduces opportunities for fraud.

One of the most effective mail skimming prevention controls is the requirement two staff open the mail and record all funds received. Mail skimming usually occurs when a single employee opens the mail. Instead of recording the incoming funds, the employee pockets some or all the funds received. This is the method used in the fraud discussed in the opening paragraph.

Other effective controls used for protecting funds received through the mail, or otherwise, include:

Reconciliation. Daily reconciliation of deposit records against daily cash payments applied and monthly reconciliation of all funds recorded in the agency system against all funds deposited can help identify inconsistencies. Supervisory review of all reconciliations is critical for identifying and resolving identified issues.

Segregation of Duties. Risk increases whenever one person controls an entire transaction. Segregating approval, recording, custody, and reconciliation functions can help mitigate this risk.

Daily Deposit. Daily deposit of all receipts reduces opportunity for misconduct. Additionally, Minnesota law requires all receipts of $1,000 or more be deposited daily.

Secure and Restricted Access. Securing all funds received in an access restricted locked location until deposited can limit exposure of the funds to fraud and help maintain an audit trail of those with direct access.

Video Recording or Monitoring. Video recording or monitoring of areas where mail is processed or cash is received can increase the perception of detection and provide future evidence in the event of misconduct.

Suggested action steps: Ensure your agency's recently completed control environment self-assessment and risk assessment planning included consideration of the cash theft prevention controls identified above. If you have questions, please contact Mike Thone at Mike Thone or 651-201-8132.

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